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The case of ED 55**

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**CONSTITUENT PARTICIPATION IN THE AUSTRALIAN PUBLIC SECTOR  
ACCOUNTING STANDARD-SETTING PROCESS:  
THE CASE OF ED 55.**

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**CONSTITUENT PARTICIPATION IN THE AUSTRALIAN PUBLIC SECTOR**  
**ACCOUNTING STANDARD-SETTING PROCESS:**  
**THE CASE OF ED 55**

**ABSTRACT**

The Australian public sector has recently undergone a period of intense reform including a comprehensive reform of financial reporting policies. A major aspect of this reform is the involvement of the Australian accounting profession in the formulation of financial reporting standards through the Public Sector Accounting Standards Board (PSASB). Despite this extensive change, scant research has examined constituent participation in the Australian public sector accounting standard-setting 'due process'. This paper considers the regulatory model adopted for accounting standard-setting in the public sector in Australia and identifies the implications of this model for constituent access to the 'due process'. In particular, the co-operation between the PSASB and the various regulatory bodies in each Australian jurisdiction suggests that these bodies may have more direct influence over the standard-setters than other constituents. The submissions made on ED 55 *Financial Reporting by Government Departments* are examined as a case study of the 'due process' as it operates in the public sector. Different constituent groups were found to respond in varying proportions, to hold conflicting positions on some issues contained in ED 55 and to use different strategies to present these positions. The research identifies a lack of input by the major group affected by the proposed standard, the account preparers (government departments). In addition, account preparers which did respond to ED 55 were found to use less sophisticated lobbying strategies than other respondents who weighted their responses by commenting on a greater number of issues and by supporting their position with conceptual arguments. These results support the contention that some constituents have favourable access to the 'due process' and that standard-setters may not have received all pertinent information from affected and/or knowledgeable constituents.

Keywords: Public Sector Accounting Standards Board; Due process; Government department

## 1 INTRODUCTION

The Australian public sector has recently undergone a period of intense reform including a comprehensive overhaul of financial reporting policies. A major aspect of this reform is the involvement of the Australian accounting profession in the formulation of financial reporting standards through the Public Sector Accounting Standards Board (PSASB)<sup>1</sup>. The PSASB has issued accounting standards *AAS 27 Financial Reporting by Local Governments* in 1990, *AAS 29 Financial Reporting by Government Departments* in 1993, and *AAS 31 Financial Reporting by Governments* in 1996. The fundamental change required by these standards is for governments across the major segments of the public sector to move from their traditional cash basis of financial reporting to the accrual accounting method. Thus, under AAS 27, each local government would present accrual financial statements; under AAS 29, each government department at both the state and national level would present accrual financial statements; and under AAS 31 state and national governments would present accrual financial statements for the entities they control. In adopting accrual reporting, financial information on aspects of public sector operations not previously reduced to financial presentations would become available to Parliament and the general public. These reporting reforms have the potential to alter not only the way in which the public sector and its services are viewed, but also the way in which it is operated. Despite the potential impact of public sector accounting standards, there has been little research into either the origins or consequences of these reforms.

The setting of accounting standards necessitates making social choices between the conflicting interests of the various individuals and groups affected by them. A procedural 'due process' has been developed to protect the openness, neutrality and independence of the Australian accounting standard-setting process (Miller, 1996). One means by which interested parties can lobby on a proposed accounting standard within the 'due process' is to provide comments on exposure drafts. The stated aim of the issue of exposure drafts is to invite comments from all interested parties on the acceptability of proposed standards for consideration prior to the issue of the final standard (AARF, 1993a).

Respondent lobbying on private sector accounting standards has been extensively researched. It has generally been found that potential economic consequences motivate the responses of the

predominant respondents to exposure drafts - the account preparers and auditors (see Deegan et. al. 1990; Francis, 1987; Lindahl, 1987; Puro, 1984; Sutton, 1984; and Watts and Zimmerman, 1986). While the 'due process' adopted for developing accounting standards in the Australian public sector is ostensibly the same as that utilised for private sector accounting standards, differing institutional arrangements and political environments are likely to drive differences in constituent involvement.

Research on constituent participation in the accounting standard-setting process in the Australian public sector is scant. In an analysis of responses to the exposure draft *ED 50 Financial Reporting by Local Governments*, Carnegie and West (1997) found low levels of participation for account preparers. They were also critical of the manner in which the responses were analysed and on that basis, questioned whether the PSASB was responsive to their constituency. Further, Ryan (1997) examines the method of policy formulation in the public sector and argues that policy is formulated by a 'co-operative' relationship between the accounting profession regulators (the PSASB) and the government regulators. This process of policy formulation may have implications for the operation of the 'due process'.

The objective of this paper is to document constituent participation in the 'due process', through an analysis of submissions made on *ED 55 Financial Reporting by Government Departments* (AARF 1992b) (ED 55), the exposure draft which preceded AAS 29. The changed method of accounting proposed by ED 55 provides a window that will allow an examination of the operation of the 'due process' as it exists in the Australian public sector. In particular, an examination of who has attempted to influence the process, and the strategies employed by them will extend the current understanding of constituent participation in the Australian public sector accounting standard-setting process. If, as has been alluded to in the prior research, some constituents are under-represented while other constituents have favourable access to the 'due process', it is possible that not all pertinent information from affected and/or knowledgeable constituents is encompassed into the deliberations of the standard-setters. The findings should be of interest to those involved in the standard-setting process in Australia as it provides an opportunity to increase the knowledge of the dynamics of public sector standard-setting.

The remainder of the paper is organised as follows. Section two describes the regulatory framework relevant to the development of financial reporting standards within the public sector

in order to identify the style of accounting standard-setting adopted for public sector regulation in Australia. The third section considers the potential for constituent participation and proposes incentives for individuals and groups to lobby in the accounting standard-setting process. The fourth section contains a case study on ED 55 and outlines the results of analysis of the lobbying behaviour of constituents through submissions made on ED 55. The paper concludes with a discussion of the implications and limitations of the study for standard-setters and researchers.

## **2 PUBLIC SECTOR FINANCIAL REPORTING FRAMEWORK**

Prior private sector lobbying studies have been criticised for treating standard-setting episodes as discrete events devoid from any consideration of other factors against which a particular issue arises (Fogarty et. al., 1994; Walker and Robinson, 1993; Roberts and Kurtenbach, 1992). This current study addresses these criticisms in two ways: first, by a consideration of the regulatory style adopted for accounting standard setting in the public sector in Australia; and second, by a consideration of other factors which are relevant to this particular Exposure Draft on government departments.

In analysing accounting regulation, Puxty et. al. (1987), proposed a conceptual framework that viewed the institutions and processes of accounting regulation as an outcome of the organising principles of Market (dispersed competition), State (hierarchical control), and Community (spontaneous solidarity). While the model identifies a number of 'theoretically possible modes of regulation', Puxty et. al. argue that in advanced capitalist societies, the mode of regulation is best described as some mix of Market and State. They argue that different nation-states are located somewhere along a Liberalism (where there is exclusive reliance on market mechanisms) and Legalism (where there is exclusive reliance on the legislative and coercive powers of the state) axis. They identify two further 'mixed modes' along this axis, associatism and corporatism. Associatism involves a basic reliance on the market augmented with professional self regulation. Corporatism involves a strategy where the State incorporates organised interest groups into their own system of regulation, often using them to achieve public interest goals (p284). The key difference between associatism and corporatism lies in the extent of involvement of the State (Puxty et. al., 1987).

Miller (1996) uses the Puxty model and applies it to the standard-setting process in Australia. He argues that the private sector standard-setting process is corporatist, based on the premise that Australian Accounting Standards Board (AASB) standards have legislative backing. The potential problem in any corporatist system is that only some constituents have access to influencing the policy makers and hence have input into the final outcome. However, Miller (1996) maintains that in the private sector, the standard-setters maintain a co-operative relationship with their constituency so that an equilibrium outcome is achieved. He concludes that even though a corporatist model exists, private accounting standard-setting in Australia is open, neutral and independent because all stakeholders have a chance to make submissions on accounting issues within the 'due process'. It can be concluded from Miller's point of view, that the operation of the 'due process' and the access of all stakeholders to this process is integral to an open, neutral and independent accounting standard-setting process.

Ryan (1997) argues that in the Australian public sector, financial reporting policy is formulated in a corporatist manner within the institutionalised relationships between the State bureaucracies of Treasuries and Departments of Finance and the PSASB. In the public sector, despite the existence of the PSASB, the responsibility for the determination of accounting requirements for government departments lies with the various regulatory agencies of Treasuries and Departments of Finance (hereafter referred to as Treasuries) in each Australian jurisdiction. This means that the legitimacy of the role of the accounting standard-setters is dependent on the support of these Treasuries for the standards promulgated by the PSASB. This mode of standard-setting may influence the access of constituents to input on those policies, and hence the content of the policies.

While the mode of accounting regulation may have implications for the operation of the 'due process', one further factor that would have had the potential for ensuring maximum involvement in the due process by government departments around Australia concerns the state of political commitment to accrual reporting at the time of the release of ED 55 in January 1992. By January 1992, each of the Treasuries was funding the PSASB in order to procure a standard on departments (Ryan, 1998). The Heads of Treasuries from all Australian jurisdictions had made an 'in principle' commitment to accrual reporting in accordance with accounting standards prepared by the PSASB (Heads of Treasuries Working Party on Accrual Accounting, 1992), and both NSW and Victoria had announced they were introducing accrual reporting for all

government departments in their jurisdictions. With this committed political support for the introduction of accrual reporting according to standards developed by the PSASB, it is to be expected that constituents who would be adversely affected by this extensive change would use the 'due process' for ED 55 to attempt to influence contents of the standard.

In summary, it could be expected that with the political commitment to accrual reporting by government departments, constituents would make maximum use of the 'due process' to have an input into the standard. However, prior research has suggested that the corporatist mode of policy making for public sector accounting standards may affect the access of constituents to the 'due process'. It is this access to the 'due process' in the case of ED 55 that is examined in the remainder of this paper.

### **3 PARTICIPATION IN THE 'DUE PROCESS'**

Researchers investigating the lobbying behaviour of respondents to exposure drafts in the private sector, have generally found that the predominant respondents to exposure drafts are account preparers and auditors (Sutton, 1984). Account preparers are usually the most frequent respondents especially where the particular proposed accounting standard has the potential to adversely affect cash flows (Mian and Smith, 1990). Auditors also respond on a frequent basis and usually adopt the position of their client (Puro, 1994). Users of financial statements seldom respond to exposure drafts (Weetman et. al., 1996). Low user involvement could be explained by an absence of economic consequences for this group, however, user non-response has been observed even where the proposed standard (arguably) adopts a user perspective (Weetman et. al., 1996). In addition, Olson (1965) contended that individuals of a group may not undertake lobbying behaviour which benefits the group as a whole unless free riders can be excluded from the benefits. A related explanation for low user involvement in the 'due process' may be that these constituents perceive that they have low potential to influence outcomes.

In the US public sector, Roberts and Kurtenbach (1992) identified preparers, auditors, users and others (e.g. academics) as potential constituents in the public sector standard-setting process. However, on the basis of frequency of comment letters, they conclude that users and others are not active constituents in the US standard-setting process, and that preparers and attestors



(auditors) make up about 90% of the input on accounting standards. In Australia, Carnegie and West (1997) examined the responses to *ED 50 Financial Reporting by Local Governments*. They found that the account preparers (local governments) represented 105 out of 154 respondents (68%). Although seemingly a strong response, this number represents a small proportion of total local governments who would have been potentially affected by the proposed standard. Other respondents included; local government departments, Auditors-General, local government representative groups and accounting firms.

In addition to account preparers, auditors and users, Treasury regulators are also an important constituent group in the Australian public sector. Public sector research in Australia (see Ryan, 1998; Guthrie, 1994; Parker and Guthrie, 1990), and New Zealand (see Scott and Gorringer, 1989; Scott, Bushnell and Sallee, 1990) has provided evidence of the role of Treasury public servants in the evolution of reporting requirements. In general, this group has been found to have an important influence on the development of financial reporting reforms.

As well as identifying those parties with an interest in accounting standards, researchers have investigated the motivations of respondents to private sector exposure drafts. A constituent would be expected to lobby within the accounting standard 'due process' where the expected benefits of doing so exceed the costs. The costs borne by a respondent to an exposure draft include: the direct costs associated with participation, such as the cost of becoming informed and the opportunity cost of the time and mental energy expended in preparing the response (Tandy and Wilburn, 1996); and/or the indirect costs associated with holding a socially 'unacceptable' or self-interested position (O'Keefe and Soloman, 1985). The benefits of lobbying are the economic advantages associated with a favourable outcome weighted by the probability of obtaining that outcome (Tandy and Wilburn, 1996). That is, while potential economic benefits are the primary motivation for lobbying, constituents will not lobby unless they perceive that they have the potential to influence the decision either individually or collectively (Sutton, 1984).

The potential to influence the consensus outcome depends on the relative power positions of constituents. Baldwin (1978) views exchange and dependency as the source of power within a political process. A pluralist model of power suggests a wide distribution of power among constituents whereas corporatist/elitist models suggest that certain participants carry more influence than others (Sutton, 1984). Where one party is dependent on the support of another,

they are likely to accept influence from them in exchange for that support. Accounting standard-setters are dependent on the acquiescence of their constituency for legitimacy. This suggests that standard-setters may accept influence in order to maintain support and resources (Fogarty et. al., 1994). Constituents may factor this into their decision about whether to lobby or not.

Section two of the paper presented the case that accounting regulation in the public sector in Australia leans towards a corporatist form and highlighted the dependency of the standard-setters on governmental agencies for their legitimacy. Using the reasoning of Baldwin (1978), these governmental agencies will derive power from the standard-setters dependency on them and will be in a strong position to influence regulatory outcomes. Disproportionate influence exerted by any group may affect the distribution of power among other groups within the constituency who may then have less incentive to participate in the accounting standard-setting process. The next section examines the submissions made on ED 55 as a case study of constituent participation in the 'due process' as it operates in the public sector.

## **4 THE CASE OF ED 55**

### **4.1 Background to the issue of ED 55**

ED 55 was issued by the PSASB in January 1992<sup>2</sup>. ED 55 identified government departments as reporting entities which were required to prepare general purpose financial reports, including an Operating Statement, Statement of Financial Position and a Statement of Cash Flows. Those reports were to be prepared on an accrual basis with the Operating Statement disclosing the 'cost of goods and services provided during the period'. In addition, all assets that satisfied the recognition criteria, including infrastructure assets (such as transport systems), heritage assets (such as monuments) and community assets (such as parks and recreational reserves) were required to be recognised in the Statement of Financial Position. Notes to the Statement of Financial Position were to disclose details of the fees, fines, taxes, other user charges and other resources that the department collects on behalf of the government or other entities; details of each major departmental program; and report, in summary form expenditures against parliamentary appropriations. The AARF also issued a Guide to ED 55 to assist potential respondents to the exposure draft (AARF, 1992a). This guide outlined nine issues on which the PSASB specifically sought comment. These are discussed further in section 4.3.

*AAS 29 Financial Reporting by Government Departments* was subsequently issued in December 1993, eighteen months after the closing date for submissions to the Exposure Draft. The standard incorporated a number of minor changes to the proposals of the Exposure Draft (AARF 1993b)<sup>3</sup>. Despite these changes, the standard still retained the fundamental proposals outlined in ED 55. That is: the accrual basis was adopted as the appropriate basis of accounting; government departments were considered to be reporting entities which must prepare consolidated financial reports; all assets must be recognised and depreciated over their useful lives; and ‘encouragement’ given for assets to be measured at their written-down current cost.

The fact that the accounting standard was issued with requirements largely unchanged from the original exposure draft suggests a number of possibilities: either the ED gained general constituent approval; respondents who did not agree with the proposals chose to not lobby; or the positions of opponents to the requirements failed to influence the standard-setters to alter the outcome. By documenting the level of evident constituent participation in the ‘due process’, the positions held by respondents and any strategies employed by them in an attempt to influence the standard-setters, this case study will add to an understanding of the dynamics of the process.

## 4.2 Participation in the 'Due Process': ED 55

Section three outlined the expectation that constituents would lobby within the 'due process' by responding to exposure drafts where the expected benefits of doing so exceed the costs. This section considers the incentives to lobby which exist for the major parties with an interest in the outcome of ED 55; the account preparers (government departments), auditors (both private and public sector), users and treasury regulators.

ED 55 heralded significant changes in the accounting requirements for government departments. These changes involved the direct out-of-pocket expenses associated with the implementation of the new standard through potential increases in book-keeping and asset valuation costs for government departments. Compliance with the standard was likely to necessitate the development of new financial expertise including information systems and personnel (Neilson, 1993). Government departments would not receive additional funding for these changes so they would be forced to divert resources away from the provision of services, presumably to the detriment of program effectiveness (Wanna et. al., 1992). The impact of increased costs should be considered in light of evidence that argued that compliance costs for public sector bodies are usually higher than those faced by private sector bodies (Christensen and Mohr, 1995, p.317). A further consequence of ED 55 for account preparers lies in the fact that the exposure draft emphasises the reporting of financial performance. This may be inappropriate for departments where financial performance is incidental to the provision of their services<sup>4</sup>. Users of reports may place reliance on financial results instead of non-financial performance indicators in judging the efficiency of government departments. If the bureaucrats in government departments perceive that financial performance is the primary gauge for evaluation of their performance, they may divert resources to improve financial performance rather than program effectiveness.

An important group of respondents to private sector exposure drafts are auditors. Auditors in the private sector have been found to lobby on behalf of their client (Puro, 1984), to decrease their own exposure to liability and to advertise their auditing expertise (Mian and Smith, 1990; MacArthur, 1988; Deegan et. al., 1990). Similar to the private sector, public sector auditors are likely to respond to ED 55 to assert their expertise in the area. Also, public sector auditors are agents of Parliament and may lobby for standards which improve accountability to the Parliament. One rationale for the move to accrual accounting is the improvement of accountability (AARF 1991), so public sector auditors might be expected to support ED 55 on

improved accountability grounds. However, the private sector research also considers the incentives of auditors to minimise their audit risk. ED 55 proposes wide reaching changes, including the imposition of subjective asset valuation rules which may increase audit risk. Therefore, auditor support for ED 55 will also depend on its perceived effect on audit risk. This difficulty in predicting ex ante whether auditors will oppose or support the standard has been documented by prior researchers (Roberts and Kurtenbach, 1992).

The predominant auditors in the public sector are the Auditors-General. However, the 'big 6' accounting firms do perform contracted audits and consultancy services so will also have an interest in the outcome of accounting standard setting in that sector. Private sector auditors would be expected to lobby if the proposed standard affects the potential for generating fees. If the proposals of ED 55 were accepted, these firms could expect to gain consultancies from government departments needing assistance in setting up the necessary accounting systems to cater for these changes (Banham 1990). It is therefore likely that the 'big 6' would support ED 55, especially the requirement that general purpose financial reporting be adopted.

The conceptual premise for the preparation of general purpose financial reports is that there are users who are unable to demand tailored reports to meet their particular information needs (AARF 1992d). Therefore, it would be expected that users of the financial reports of government departments would have an interest in the content of ED 55. However, research has generally found little interest by users in public sector financial reports. For example, Gaffney (1986), Engstrom (1988) and Butterworth et. al. (1989) found that there was a low level of public interest in the financial statements of US counties, US universities and British local authorities. New Zealand based studies conducted by Hay (1994) and Dixon et. al. (1994) also found a lack of interest from general users of public sector and university reports. This being the case, it might be expected that general users would not be interested in the regulation of financial reporting of government departments and would be unlikely to lobby on ED 55. As mentioned earlier, an alternative explanation for low user involvement may be that these constituents perceive that they have low potential to influence outcomes.

Treasury regulators are another major group having an interest in the outcome of ED 55. Treasuries around Australia have played a leadership role in the formulation of financial management techniques in the public sector (Guthrie, 1994). Indeed, it is argued by some that

accrual accounting methodologies have been the vehicle for the promotion of many other changes (eg. user charging) to public sector practices (Wanna et. al., 1992). Moreover, Treasuries are responsible for the ‘control’ of the spending of government departments. With increasing fiscal stress, many Treasury officials argue that accrual accounting methods will enable them to monitor the efficiency and effectiveness of fund usage by government departments (Ryan, 1998). This gives the Treasury regulators a vital stake in the outcome of the final standard.

In summary, the likely costs associated with the imposition of the proposals of ED 55 for government departments suggests they could be expected to oppose the standard and therefore have incentive to lobby against it. It is unclear whether the Auditors-General would support or oppose ED 55, however, the important role played by this group raises expectations that they will participate in the ‘due process’ by responding to the exposure draft. Private sector auditors would be expected to support the proposals, while general users may not be interested in participating in lobbying on ED 55. Given the leadership role played by the Treasuries in the formulation of the exposure draft, it is expected that the group will be vocal supporters of it. The next section outlines the method adopted for the analysis of the responses to ED 55.

### **4.3 Method of Analysis**

The 46 submissions made on ED 55 form the database of this study. The submissions were analysed using ‘form oriented’ content analysis based on the procedures employed by O’Keefe and Soloman (1985), MacArthur (1988) and Tutticci et. al. (1994). The method attempts to identify the key issues within the exposure draft, the positions held by respondents and any strategies adopted by respondents in an attempt to influence the standard-setters, without employing undue subjectivity. To minimise the bias created by researcher subjectivity for this project, the submissions were analysed by two researchers, one of whom acted as an independent judge<sup>5</sup>. All responses were coded and classified by the first researcher according to predetermined classification schemes (see Figure 2 and 3). The second researcher then independently analysed all responses. Each instance of disagreement was discussed between the two researchers and all discrepancies were able to be resolved through clarification of the classification schemes.

An integral aspect of content analysis is the identification of the key issues contained in an exposure draft. A researcher is faced with a choice between making some subjective identification of issues or relying on a choice by an external party. Following Tutticci et. al. (1994) the issues examined will be based on those identified in the AARF's (1992a) Guide to ED 55. They argue that the AARF list of issues are determined independently from the researcher and therefore any potential research bias from subjectively identified issues is avoided. However, this choice does not control for any bias introduced by the AARF in their selection of the issues to be highlighted for comment. The AARF have selected the issues of interest to them and thus may have directed respondents away from other aspects of the exposure draft. This limitation of this style of content analysis means that no conclusion can be reached as to the true underlying position/motivation of the respondents. However, the strength of this style of content analysis is that it can objectively document the 'stated' positions of respondents and any strategies employed by them for the issues under analysis (Tutticci et. al., 1994). This analysis can then be augmented by other styles of future research which do address the underlying interests of constituents.

The original nine issues outlined by the AARF (column one) and those employed in this study (column two) are compared in Figure 1. Minor modifications involved splitting issues two, three and four as these each encompassed two components which required a separate response by the respondent. Puro (1984) suggests that separating measurement (standardisation) issues from those relating solely to disclosure would provide a clearer picture of respondent positions. Following this suggestion, each of these issues were classified categories based on the type of change considered. Issues 2a and 2b dealt with the basic premise that government departments should present general purpose financial reports. The specific measurement aspects were covered in issues 3a, 3b, 4a, 4b and 5 while issues 6, 7, 8 and 9 related to various disclosure issues.

Issue 1 was not included in the analysis as it was only a definitional issue. The definition of a government department was a procedural issue which varied depending on legislation and administrative requirements in each jurisdiction. When AARF released the standard, they mentioned that there had been concerns on this issue but that this was related to a misinterpretation of the intention of the definition. The definition was not changed in the subsequent standard but the commentary was altered to reflect a more accurate description of what was to be included in accordance with the positions outlined by respondents to the exposure draft. If this issue were included in the analysis, it is implicitly treated as having equal importance to the other issues and would therefore distort the interpretation of the extent of respondent participation.

The purpose of the content analysis employed in this study is to identify the positions held by respondents and to identify any strategies adopted by them to 'weight' their responses in an attempt to influence the standard-setters. The positions held by respondents will be counted as simple votes where each comment is considered as an 'agree', 'against', or 'neutral' position. The strategies to 'weight' responses to be considered are whether respondents present 'strong' positions rather than just a stated vote; whether respondents supported their position with conceptual and/or economic consequences arguments; whether respondents addressed a large number of issues; and whether the respondents presented their comments in the same format as the AARF's Guide to ED 55. Other strategies considered by prior researchers include the counting of words or pages (O'Keefe and Soloman, 1985; MacArthur, 1988). Following Tutticci et. al. (1994) page or word counting was not employed in this study as it was considered that counting the number of issues gave a more accurate indication of response 'weighting'.

Each response was scrutinised for any comment on the eleven issues employed in this study. Many respondents addressed the issues on a point by point basis making the identification of a comment on an issue straightforward. For others it was necessary for the two researchers to interpret whether a comment had addressed the issues of interest. Once a comment on an issue was identified, the respondent's position was coded using the classification system as outlined in Figure 2. Again, in some instances researcher judgment was involved in the



**Figure 1 ED 55 Issues Raised for Comment**

| AARF Issues (AARF 1992a)   | Research Issues   |
|--|---|
| <p>1 The manner in which a government department has been defined</p> <p>2 The requirement that the general purpose financial report of a government department be a consolidated financial report which encompasses all of the entities which the department controls</p> <p>3 The requirement to recognise all assets which the department controls and to depreciate those assets if their service potential is consumed</p> <p>4 The recommendation that government departments revalue their infrastructure, heritage and community assets to written-down current cost on a regular basis</p> <p>5 The requirement to recognise goods and services received free of charge at fair value</p> <p>6 The requirement to disclose information about the major programs and activities of the government department and the types of disclosure required</p> <p>7 The proposed treatment of amounts appropriated to departments for transfer to other entities, but not controlled by the department</p> <p>8 Whether the recoverable amount test as defined in Australian Accounting Standard AAS 10 should be applied to government departments</p> <p>9 Whether it is appropriate to define user charges to encompass fines and fees</p> | <p>Not included</p> <p><b>General Purpose Financial Reporting (GPFR) Issues</b></p> <p>2a The requirement for a general purpose financial report of a government department</p> <p>2b The requirement that the report be a consolidated financial report which encompasses all of the entities which the department controls</p> <p><b>Measurement Issues</b></p> <p>3a The requirement to recognise all assets which the department controls</p> <p>3b The requirement to depreciate those assets if their service potential is consumed</p> <p>4a The recommendation that government departments revalue their infrastructure, heritage and community assets</p> <p>4b The recommendation that infrastructure, heritage and community assets be revalued to written-down current cost on a regular basis</p> <p>5 The requirement to recognise goods and services received free of charge at fair value</p> <p><b>Disclosure Issues</b></p> <p>6 The requirement to disclose information about the major programs and activities of the government department and the types of disclosure required</p> <p>7 The proposed treatment of amounts appropriated to departments for transfer to other entities, but not controlled by the department</p> <p>8 Whether the recoverable amount test as defined in Australian Accounting Standard AAS 10 should be applied to government departments</p> <p>9 Whether it is appropriate to define user charges to encompass fines and fees</p> |

classification. Additional analysis involved the determination of whether respondents had ‘weighted’ their stated position with the use of supporting arguments. The classification scheme used is presented in Figure 3. The results of the content analysis are discussed in the next section.

**Figure 2 Classification scheme for responses**

|    |  |
|----|--|
| 1. | Agree - where respondents:   |
|    | . state that they agree; or  |
|    | . where the spirit of the stated position is one of agree including where respondents agree but with reservation       |
| 2. | Disagree - where respondents:  |
|    | . state that they disagree; or   |
|    | . where the spirit of the stated position is one of disagree including where respondents disagree but with reservation |
| 3. | Neutral - where respondents:   |
|    | . discuss the issue but reach no conclusion, require clarification/refinement.   |
| 4. | Nil - where respondents:   |
|    | . give no indication of their position on an issue.  |

**Figure 3 Classification scheme for arguments used by those who responded with a position**

|   |
|---|
| Conceptual – where respondents provide discussion of accounting concepts, the conceptual framework or generally accepted accounting principles.                               |
| Economic – where respondents use arguments relating to dollar (\$) costs and benefits or more generally talk about implementation problems which ultimately will affect costs |
| Both – where respondents use both a conceptual and economic argument  |
| None – where respondents use no argument  |

#### **4.4 Discussion of Results**

##### **4.4.1 Constituent Response Rates**

Despite the substantive reporting changes from cash to accrual reporting contained in ED 55, only 46 responses to the exposure draft were submitted. Table 1 summarises the responses by respondent group. For analysis purposes, this paper concentrates on Auditors-General, Treasuries, account preparers and ‘big 6’ accounting firms. Following Puro (1984), the group ‘Others’ were not subject to direct analysis as they were predominated by individuals and it was impossible, even when stated, to determine whether they are responding on their own behalf or on behalf of bodies of which they were employees or members.

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TABLE 1  
Response Rate by Respondent Group to ED 55

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| Respondents              | Possible | Actual | % Response |
|--------------------------|----------|--------|------------|
| Auditors-General         | 9        | 7      | 78         |
| Treasuries               | 9        | 9      | 100        |
| Account preparers        | 660*     | 20     | 3          |
| ‘Big 6’ accounting firms | 6        | 3      | 50         |
| Others                   |          | 7      |            |
|                          |          | 46     |            |

\* Minimum figures based on advice received by the Commonwealth, WA, SA, Qld, Vic and NSW Treasuries. ACT, NT and Tas are not included, but numbers of departments are small.

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While account preparers, in this case government departments, provided the greatest number of responses, they are proportionately the least represented group with only 3% of all government departments in Australia providing a response. The contention that the account preparers faced increased costs to employ the requirements of the standard raised the expectation that this group would have an incentive to respond to the exposure draft<sup>6</sup>. The low level of participation could be explained by the fact that this group did not perceive that they could influence the standard-setters. An alternative, although related, explanation is that government departments did not have access to the financial expertise necessary to produce credible responses. Prior to the implementation of the standard, many government departments did not employ qualified accounting staff because the cash accounting procedures did not require them (Neilson, 1993). Account preparers expressed concerns about their lack of staff expertise and the required accounting systems. For example, one government department expressed concerns about the need for staff training and the modification of accounting practices in their response:

... it [*the implementation of accrual accounting*] is a major and costly task and many practical difficulties would be involved especially in regard to addressing capitalisation of infrastructure assets and valuation of assets generally. As well a major education program for staff would be a mandatory requirement in order to gain acceptance and co-operation for such a significant culture change. Accounting systems, practices and procedures would need to be modified significantly (AARF 1992c ED 55 Response No 2).

The possibility that a lack of qualified accounting staff impeded participation in the 'due process' will be discussed further with regard to the lobbying strategies employed by respondents.

Every Australian Treasury, both Commonwealth and State, responded to ED 55. This is consistent with the leadership role played by this group in the formulation of the standard. They could be expected to have incentives to respond in support of the standard which they had assisted to develop. Alternatively, Treasuries may take this opportunity to lobby if they held views which dissented from the consensus. This possibility is also discussed further in the next section.

The Auditors-General were a highly responsive group (78%). The only Auditors-General who did not respond were from small jurisdictions - Tasmania and the ACT. The high level of response from Auditors-General is consistent with the findings of prior research which finds that significant numbers of private sector auditors responded to exposure drafts (Puro, 1984; MacArthur, 1988; Mian and Smith, 1990; Deegan et. al., 1990).

Three of the 'big 6' accounting firms provided responses. While this represents 50% of the respondent group, this is not as high as that expected for private sector exposure drafts where all firms usually make a response (Puro, 1984). In some cases more than one response to an exposure draft will be made by a firm. In the case of ED 49, Tutticci et. al. (1994) found that twelve responses were submitted by partners in 'big 6' firms.

While not an issue on which specific comment was sought, most respondents made a general statement of support or otherwise for the standard in their response. Of those who made such comment, 83% of Auditors-General, 88% of Treasuries, 79% of account preparers, and 100% of 'big 6' accounting firms expressed support for the general thrust of the proposed standard. Respondents were largely supportive of the moves towards accrual accounting but did show some differences of opinion regarding implementation issues. For example, one account preparer stated:

Overall we commend the ED 55 objective of increasing the disclosure of financial information which is relevant to a range of users. It is an important step in government departments being, and being seen to be, accountable for the considerable resources under their stewardship. We question however, whether the application of a general commercial model is directly applicable to departments which are wholly or predominantly providers of community services (AARF 1992c ED 55 Response No 9).

In summary, account preparers were found to be infrequent respondents to ED 55 while Treasuries and Auditors-General were almost unanimous participants and one half of the 'big 6' accounting firms made a response. The unequal participation of interest groups raises the possibility that standard-setters may have been unduly influenced by some constituents and were deprived of input from others, especially account preparers. This could be problematic, as account preparers are arguably the group in the best position to point out any practical impediments to the successful implementation of the standard.

#### **4.4.2 Respondent votes of position**

Table 2 presents the positions held by the four groups of respondents classified by the three types of issues; general purpose financial reporting (GPFR) framework, measurement, and presentation and disclosure<sup>7</sup>. For the GPFR framework issues and measurement issues, the majority of all respondents in all groups agreed with the proposals of the exposure draft. However, it should be noted that account preparers were less supportive of the GPFR framework and measurement issues than any other group. These two sets of issues outlined the fundamental change to the reporting framework for government departments so it is possible that some account preparers saw these requirements as those which would impose the most significant costs of compliance.

It is interesting to note that the 'big 6' respondents did not disagree with any issue and provided only supportive or neutral positions on the issues they addressed. It may be that the 'big 6' did

genuinely support or were neutral about the issues discussed in the exposure draft. An alternative explanation is that, as at that point in time, the accounting firms had insufficient specific experience and/or interest in accounting for government departments to warrant the presentation of dissenting views. However, despite this lack of specific expertise (at that point in time), the responding firms may have responded in an attempt to advertise their interest in the expectation of generating future revenue.

TABLE 2  
Stated respondent position by group

|                     | Issues 2a, 2b  |         |         | Issues 3a to 5 |         |          | Issues 6 to 9             |         |          |
|---------------------|----------------|---------|---------|----------------|---------|----------|---------------------------|---------|----------|
|                     | GPFR Framework |         |         | Measurement    |         |          | Presentation & Disclosure |         |          |
|                     | Agree          | Neu     | Disag   | Agree          | Neu     | Disag    | Agree                     | Neu     | Disag    |
| Auditors-General    | 92% (12)       | 0% (0)  | 8% (1)  | 76% (22)       | 0% (0)  | 24% (7)  | 48% (11)                  | 0% (0)  | 52% (12) |
| Treasuries          | 75% (12)       | 0% (0)  | 25% (4) | 64% (23)       | 0% (0)  | 36% (13) | 39% (11)                  | 0% (0)  | 61% (17) |
| Account preparers   | 55% (11)       | 0% (0)  | 45% (9) | 54% (28)       | 12% (6) | 35% (18) | 57% (12)                  | 10% (2) | 33% (7)  |
| 'Big 6' acctg firms | 83% (5)        | 17% (1) | 0% (0)  | 73% (8)        | 27% (3) | 0% (0)   | 100% (7)                  | 0% (0)  | 0% (0)   |

Key: % and (number)

For the presentation and disclosure issues, the majority of Auditors-General and Treasuries disagreed with the proposals while the majority of account preparers and all of the 'big 6' respondents supported them. It is beyond the scope of this study to investigate why account preparers and 'big 6' accounting firms were more likely to support this aspect of ED 55. It could be conjectured that account preparers were willing to support the less integral aspects of the exposure draft in an attempt to make their lack of support for the more fundamental changes more palatable. Similar types of 'gaming' have been identified in prior research (O'Keefe and Soloman, 1985). The unanimous support of the 'big 6' firms for these issues is consistent with their overall responses to the exposure draft.

The fact that the majority of Auditors-General and Treasuries disagreed with the presentation and disclosure issues does not have any obvious explanation. The prior discussions documented between these groups during the presentation of the exposure draft might be argued to create an expectation that these groups would support all aspects of the standard. However, Ryan (1997) provides evidence that while the majority of Treasuries were able to reach agreement on the fundamental proposals of the exposure draft, there remained some issues that were contentious. Ryan (1997) documents this lack of unanimity even after a series of meetings between AARF and The Standing Treasuries Liaison Committee on the details of ED 55.

In summary, the majority of respondents supported the fundamental recommendations of the exposure draft, that is, GPFR framework and measurement issues. Of the four groups, account preparers were less supportive of these proposals. The presentation and disclosure issues were only supported by the account preparers and 'big 6' firms with Treasuries, in particular, being more likely to present an opposing view. These results must be interpreted cautiously due to the overall low number of responses and the low participation of account preparers. However, the lack of strong opposition to the proposals of ED 55 is consistent with the ultimate standard AAS 29 being issued with the substantive requirements outlined in ED 55 intact.

#### **4.4.3 Respondent Lobbying Strategies**

Table 3 presents the supporting arguments used by respondents classified by the type of supporting argument provided<sup>8</sup>. With the exception of one case, the 'big 6' accounting firms did not provide any supporting arguments to support their position. This is consistent with the contention that these respondents did not hold strong views about the proposals of the exposure draft. Other respondent groups used similar types of supporting argument except that account preparers were slightly less likely to use conceptual arguments alone and Auditors-General were more likely not to provide any supporting argument<sup>9</sup>. The use of supporting argument for the different types of issues (GPFR framework, measurement, and presentation and disclosure) was also examined. This analysis is summarised in Appendix A.

TABLE 3  
Arguments used by those who responded with a position  
(NIL and NEU ignored)

|                          | Conceptual |     | Economic |     | Both |     | None |     | Total<br>No. |
|--------------------------|------------|-----|----------|-----|------|-----|------|-----|--------------|
|                          | %          | No. | %        | No. | %    | No. | %    | No. |              |
| Auditors-General         | 31%        | 20  | 3%       | 2   | 2%   | 1   | 65%  | 42  | 65           |
| Treasuries               | 36%        | 29  | 6%       | 5   | 5%   | 4   | 53%  | 42  | 80           |
| Account preparers        | 27%        | 23  | 6%       | 5   | 8%   | 7   | 59%  | 50  | 85           |
| 'Big 6' accounting firms | 5%         | 1   | 0%       | 0   | 0%   | 0   | 95%  | 20  | 21           |

Both – Both conceptual and economic arguments

In general, respondents were much more likely to use conceptual rather than economic consequences arguments to support their positions. This result is similar to that found by Tutticci et. al. (1994) who conjectured that respondents may be reluctant to present economic consequences arguments in order to avoid being perceived as opportunistic. However, that explanation is unlikely to have application here as Auditors-General and Treasuries are unlikely to have the need to mask potential economic consequences as the direct costs of the implementation of the standard are expected to be borne by the account preparers. Contrary to expectation, account preparers were found to be slightly more likely to present an economic consequences argument in conjunction with a conceptually based one.

Another lobbying strategy addressed in this study is whether respondents attempted to weight their responses by providing comment on a large number of issues. Table 4 summarises the responses to ED 55 by average number of issues addressed by each respondent group<sup>10</sup>. A more specific break down of responses by single issue is contained in Appendix B. Table 4 indicates that the Auditors-General and Treasuries provided feedback for more than 80% of the issues under consideration while the 'big 6' firms responded to relatively fewer issues (60%). The greatest difference between groups is reflected by the low number of issues addressed by the account preparers who responded to only 39% (4.25 out of a possible 11) of the issues examined.



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TABLE 4  
% of Issues addressed by respondents with a stated position  
(Neutrals not included)

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| Respondents              | % of total<br>issues addressed | Average number<br>of total issues<br>addressed out of 11 |
|--------------------------|--------------------------------|--|
| Auditors-General         | 84%                            | 9.29   |
| Treasuries               | 81%                            | 8.89   |
| Account preparers        | 39%                            | 4.25   |
| 'Big 6' accounting firms | 61%                            | 6.67   |
| Total Respondents        | 58%                            | 6.41   |

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Neutrals tested and not significant

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Tables 5 (a), (b) and (c) present a comparison of the number of issues addressed by the different groups broken down by the three types of issues: GPFR framework, measurement, and presentation and disclosure. Again, account preparers were found to address significantly fewer issues than the other groups for each of the types of issues<sup>11</sup>. Account preparers exhibited responses on half or less of the issues in each of the three categories with an especially low number for the presentation and disclosure issues (24%). This low response is consistent with the position that the fundamental proposals of ED 55 relate to the GPFR framework and measurement issues, and that account preparers gave only incidental consideration to the presentation and disclosure issues. For GPFR, the top issue addressed concerned consolidated financial reports for entities the department controls (issue 2a addressed by 11 of the 20 account preparers); for measurement, the top issue concerned written-down current cost for infrastructure, heritage and community assets (issue 4b addressed by 12 of the 20 account preparers); and for presentation and disclosure, the top issue concerned disclosing information about the major programs and activities of the government department and the types of disclosure required (issue 6 addressed by 7 of the 20 account preparers).

The fact that account preparers were found to address fewer issues is consistent with the finding that this group were less likely to respond to the exposure draft. Respondents are less likely to express a view on an issue if they perceive that their comment will not influence the

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TABLE 5a  
% of Issues addressed by respondents with a stated position  
for GPFR - issues 2a and 2b  
(Neutrals not included)

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| Respondents              | % of total issues addressed | Average number of total issues addressed out of 2 |
|--------------------------|-----------------------------|---|
| Auditors-General         | 93%                         | 1.86  |
| Treasuries               | 89%                         | 1.78  |
| Account preparers        | 50%                         | 1.00  |
| 'Big 6' accounting firms | 83%                         | 1.67  |
| Total Respondents        | 69%                         | 1.39  |

Neutrals tested and not significant

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TABLE 5b  
% of Issues addressed by respondents with a stated position for  
Measurement - issues 3a to 5  
(Neutrals not included)

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| Respondents              | % of total issues addressed | Average number of total issues addressed out of 5 |
|--------------------------|-----------------------------|---|
| Auditors-General         | 83%                         | 4.14  |
| Treasuries               | 80%                         | 4.00  |
| Account preparers        | 46%                         | 2.30  |
| 'Big 6' accounting firms | 53%                         | 2.67  |
| Total Respondents        | 61%                         | 3.05  |

Neutrals tested and not significant

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TABLE 5c  
% of Issues addressed by respondents with a stated position for  
Presentation and Disclosure - issues 6 to 9  
(Neutrals not included)

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| Respondents              | % of total issues addressed | Average number of total issues addressed out of 4 |
|--------------------------|-----------------------------|---|
| Auditors-General         | 82%                         | 3.29  |
| Treasuries               | 78%                         | 3.11  |
| Account preparers        | 24%                         | 0.95  |
| 'Big 6' accounting firms | 58%                         | 2.33  |
| Total Respondents        | 49%                         | 1.97  |

Neutrals tested and not significant

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standard-setters (Gavens, Carnegie and Gibson, 1989). In the case of ED 55, the account preparers may have lacked the accounting expertise necessary to provide comments. As

already mentioned, many government departments did not employ professionally qualified accounting staff (Neilson, 1993). This lack of sophistication may be a potentially important impediment to equal access to participation in the 'due process'. This is especially important given that Carnegie and West (1997) conjecture that more sophisticated responses may be given greater attention by the standard-setters.

A final examination of respondent strategies considers whether some respondents may attempt to gain influence over the standard-setters by adopting the format of the request for comment as set out in the Guide to ED 55. The majority of Auditors-General (71%) and Treasuries (67%) did follow the prescribed format. However, only 15% of account preparers and one of the 'big 6' firms set out their responses in a similar manner to that requested.

A potential explanation for account preparers apparent disregard of the Guide to ED 55 may be that they were not aware of the existence of the document. The guide was issued separately to ED 55 and unless entities were subscribers to AARF they would have had to have gained access to the document by other means. However, the Guide to ED 55 by AARF noted that Treasuries or their equivalents at the Federal, State and Territorial level were provided with copies of the exposure draft for distribution to departments in their jurisdiction. This means: that the guides may not have been distributed; or if they were, they did not reach the person who was preparing the submission; that government departments were unable to understand the contents; or that they chose to ignore the guide. This provides further evidence suggesting that account preparers are relatively inexperienced lobbyists.

The fact that two of the 'big 6' firms did not follow the suggested format is consistent with the overall pattern of their responses. That is, the accounting firms provided general support for the exposure draft without providing supporting argument or addressing a large number of issues. If the accounting firms had followed the suggested format then the fact that they did not provide comment on nearly forty percent of the issues examined would have been highlighted. The 'big 6' respondent that did follow the suggested format provided a position for every issue contained in the exposure draft. Tutticci et. al. (1994) found that the 'big 6' respondents were the most likely group to follow the AARF suggested format. Therefore, in the case of ED 55, rather than reflecting a lack of sophistication for accounting firms, not employing this strategy to influence standard setters may reflect their lack of any specific interest on particular issues.

## 5 CONCLUSIONS

This study has documented constituent participation in the due process surrounding ED 55. A major finding of this study is the identification of a lack of input by the account preparers, that is, government departments. The low level of participation by government departments in the 'due process' for ED 55 could be explained if the proposed standard did not have consequences of importance to them. However, the potential costs of implementing the proposed changes seems to contradict such a conclusion. This suggests that there were other impediments to the involvement of government departments. Account preparers may have been disadvantaged as compared to other constituents in the 'due process' for ED 55 for two reasons. First, the close working relationship between the standard-setters and the Treasuries raises the possibility that the Treasuries were in a better position to influence the outcome. This is consistent with the contention that the 'managerialist' processes of the Australian public sector involve change being advanced by the Treasuries with an apparent lack of adequate debate from other key players. If government departments perceived Treasuries as the dominant constituency, they may have considered that they were unlikely to be able to influence the standard-setters so as to affect the outcome. Indeed, it is possible that the account preparers perceived that their only effective access to the 'due process' was through the Treasuries.

A second impediment to participation in the 'due process' for account preparers is their lack of sophistication with regard to financial reporting issues and the accounting standard-setting 'due process'. Prior to the issue of AAS 29, government departments had less need for qualified accounting staff and had no experience with the type of financial reporting system presented in ED 55. This suggests that the group may not have been able to provide credible responses for some of the issues raised in the exposure draft. Also, this was the first exposure draft issued by the PSASB which had direct relevance for government departments so this group had no prior experience of participation in the accounting standard-setting 'due process'. This lack of sophistication is also supported by the finding that account preparers were less likely than other respondents to adopt strategies such as 'weighting' their responses by addressing a large number of issues, using supporting arguments or adopting the suggested format of the standard-setters.

Another finding is that Treasuries and Auditors-General were well represented as respondents to ED 55. Treasuries were found to use the 'due process' to support the proposed standard with

which they had been involved and to give opinion on individual issues where they disagreed. This supports the contention that the Treasuries were operating within a corporatist model and were committed to the promulgation of the standard. Auditors-General participated at a high level, giving comment on a large number of issues which is consistent with their specialised expertise.

Fifty percent of the 'big 6' accounting firms provided a response to ED 55. This is a relatively low response rate for this group who have been found to be active lobbyists in the case of private sector accounting standards. The 'big 6' respondents provided only supportive or neutral positions on the issues they addressed. They did not disagree with any proposal within ED 55. They were also less likely to provide arguments to support their position than any other group. The fact that this respondent group did not employ strategies to influence the standard-setters is consistent with the low level of involvement that these firms had with government departments at that point in time.

Overall, the stated positions of respondents to ED 55 were largely supportive of the substantive changes proposed by the exposure draft. This support is reflected by the fact that the final standard, AAS 29, was issued with very few modifications from ED 55. However, if the Treasuries did have favourable access to the 'due process' in the public sector, this raises the possibility that standard-setters may not have received all pertinent information about the implications from affected and/or knowledgeable constituents.

Our findings have implications for the operation of the 'due process' in the public sector. Miller (1996) argues that in a corporatist model of regulation, an equilibrium outcome can be achieved if the 'due process' operates in a neutral, open, and independent manner. This means that all constituents have reasonable access to participate in the due process. In the case of ED 55, not all constituents have participated in the 'due process'. The impaired access of some constituents to the 'due process' means that the policy makers may have been unduly influenced by a few powerful groups. If the 'due process' has failed to operate in a neutral, open and independent manner, then an equilibrium outcome from the interplay of competing interests is not ensured. In this particular case, the lack of participation by government departments is problematic as this group would be in a good position to have knowledge on the implications of the standard particularly on the 'unintended' consequences of accrual accounting.

The results of this study should be of interest to those involved in the standard-setting process in Australia. The fact that the 'due process' is a means by which standard-setters acquire knowledge about economic consequences and conceptual problems from constituents (Fogarty et. al. 1994) without serving the private interests of constituents, suggests that consideration needs to be given to alternative means of becoming informed. It may be argued that the different circumstances of the public sector means that the 'due process' normally employed in the private sector needs modification in order to maintain the openness, neutrality and independence of the process. Equitable access to the 'due process' for all constituents would ensure that standard-setters receive all relevant input regarding practical impediments to the successful implementation of the standard and were not unduly influenced by some constituents.

A major limitation of this study is that the apparent impaired participation in the 'due process' by account preparers identified for ED 55 may not apply for all public sector exposure drafts. It is possible that the circumstances and time settings surrounding other public sector exposure drafts may be more conducive to constituent participation. Future research conducting 'form orientated' content analysis of the responses to *ED 50 Financial Reporting by Local Governments* as well as to the later *ED 62 Financial Reporting by Governments*, would indicate whether this is a systematic weakness of the due process.

This study has employed content analysis as a means of objectively investigating responses to ED 55. It has not analysed the responses in any qualitative manner, nor has it addressed the underlying motivations of constituents to participate in the 'due process'. In addition, this study shares the limitation of other lobbying studies in that it has not considered means of participating in the 'due process', other than through responding to exposure drafts. Future research could provide a richer understanding of the operation of the 'due process' by employing complementary research methods such as interviews/surveys of respondents.

## Appendix A

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### Panel A – GPFR

Arguments used by those who responded with a position (NIL and NEU ignored)

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|                          | Conceptual |     | Economic |     | Both |     | None |     | Total |
|--------------------------|------------|-----|----------|-----|------|-----|------|-----|-------|
|                          | %          | No. | %        | No. | %    | No. | %    | No. | No.   |
| Auditors-General         | 15%        | 2   | 0%       | 0   | 8%   | 1   | 77%  | 10  | 13    |
| Treasuries               | 31%        | 5   | 0%       | 0   | 0%   | 0   | 69%  | 11  | 16    |
| Account preparers        | 45%        | 9   | 0%       | 0   | 10%  | 2   | 45%  | 9   | 20    |
| 'Big 6' accounting firms | 0%         | 0   | 0%       | 0   | 0%   | 0   | 100% | 5   | 5     |

Both - Both conceptual and economic arguments

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### Panel B – Measurement

Arguments used by those who responded with a position (NIL and NEU ignored)

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|                          | Conceptual |     | Economic |     | Both |     | None |     | Total |
|--------------------------|------------|-----|----------|-----|------|-----|------|-----|-------|
|                          | %          | No. | %        | No. | %    | No. | %    | No. | No.   |
| Auditors-General         | 28%        | 8   | 3%       | 1   | 0%   | 0   | 69%  | 20  | 29    |
| Treasuries               | 25%        | 9   | 14%      | 5   | 8%   | 3   | 53%  | 19  | 36    |
| Account preparers        | 17%        | 8   | 11%      | 5   | 11%  | 5   | 61%  | 28  | 46    |
| 'Big 6' accounting firms | 13%        | 1   | 0%       | 0   | 0%   | 0   | 88%  | 7   | 8     |

Both - Both conceptual and economic arguments

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### Panel C – Presentation and Disclosure

Arguments used by those who responded with a position (NIL and NEU ignored)

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|                          | Conceptual |     | Economic |     | Both |     | None |     | Total |
|--------------------------|------------|-----|----------|-----|------|-----|------|-----|-------|
|                          | %          | No. | %        | No. | %    | No. | %    | No. | No.   |
| Auditors-General         | 43%        | 10  | 4%       | 1   | 0%   | 0   | 52%  | 12  | 23    |
| Treasuries               | 54%        | 15  | 0%       | 0   | 4%   | 1   | 43%  | 12  | 28    |
| Account preparers        | 32%        | 6   | 0%       | 0   | 0%   | 0   | 68%  | 13  | 19    |
| 'Big 6' accounting firms | 0%         | 0   | 0%       | 0   | 0%   | 0   | 100% | 7   | 7     |

Both - Both conceptual and economic arguments

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## Appendix B

### Number of Responses to Issue Type (Neutrals not included)

|                          | Total    | Iss 2a | Iss 2b | Iss 3a | Iss 3b | Iss 4a | Iss 4b | Iss 5 | Iss 6 | Iss 7 | Iss 8 | Iss 9 | Average Response To each Issue | Average Response to each Issue per Respondent | Average Number of Issues Addressed out of 11 |
|--------------------------|----------|--------|--------|--------|--------|--------|--------|-------|-------|-------|-------|-------|--------------------------------|---|--|
| Auditors-General         | 7        | 7      | 6      | 6      | 6      | 6      | 6      | 5     | 5     | 7     | 6     | 5     | 5.909 Total                    | 0.84 Average                                  | 9.29   |
| Treasuries               | 9        | 8      | 8      | 8      | 7      | 7      | 8      | 6     | 8     | 7     | 7     | 6     | 7.273 across                   | 0.81 divided by                               | 8.89   |
| Account preparers        | 20       | 11     | 9      | 10     | 7      | 10     | 12     | 7     | 7     | 3     | 5     | 4     | 7.727 divided                  | 0.39 number of                                | 4.25   |
| 'Big 6' accounting firms | <u>3</u> | 3      | 2      | 3      | 1      | 2      | 1      | 1     | 2     | 2     | 1     | 2     | 1.818 by 11                    | 0.61 respondents                              | 6.41   |
| Total Respondents        | 39       |        |        |        |        |        |        |       |       |       |       |       | 22.727 issues                  | 0.58  | 6.67   |

### TABLE 4

% of Issues addressed by respondents with a stated position  
(Neutrals not included)

| Respondents              | % of total issues addressed | Average number of total issues addressed out of 11 |
|--------------------------|-----------------------------|--|
| Auditors-General         | 84%                         | 9.29   |
| Treasuries               | 81%                         | 8.89   |
| Account preparers        | 39%                         | 4.25   |
| 'Big 6' accounting firms | 61%                         | 6.67   |
| Total Respondents        | 58%                         | 6.41   |

Neutrals tested and not significant



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## ENDNOTES

<sup>1</sup> In Australia, private sector accounting standards are issued by the Australian Accounting Standards Board (AASB).

<sup>2</sup> Discussion Paper No. 16 Financial Reporting by Government Departments was issued in 1991. Although the discussion paper was issued under the auspices of the PSASB, the project advisory panel to the authors was comprised of representatives of every Treasury in Australia, with the exception of the ACT. There were no representatives of account preparers or Auditors-General on this panel (AARF, 1991). Moreover, the PSASB obtained continuing advice from the representatives of Treasuries while deliberating on the exposure draft (Ryan, 1997).

<sup>3</sup> The changes made to ED 55 in the final standard, AAS 29 were:

- the definition of departments was clarified to explain which departments are required to report under the Corporations Law or the equivalent Australian Accounting Standards;
- the 'freeing up' of the disclosure options relating to administered transactions, program-related information and information about compliance with financial legislation or directives;
- the requirement that in the Cash Flow Statement, the 'net cost of services' rather than 'net result for the reporting period' be reconciled with the net cash provided by operating activities;
- the inclusion of a definition of 'Contributions by owners';
- revenues and expenses arising from a restructuring of administrative arrangements were to be displayed below the 'net cost of services' line in the operating statement.

<sup>4</sup> Several respondents to ED 55 mentioned the issues of disclosing appropriate performance measures despite the fact that this was not an issue on which comment was requested.

<sup>5</sup> The independent judge is a professionally qualified accountant and has post-graduate research experience.

<sup>6</sup> Account preparers had also not had any formal input into the discussion paper preceding the exposure draft (Ryan, 1997).

<sup>7</sup> Chi-square tests for differences between the stated positions of the groups for the different types of issues had mixed results but were incapable of meaningful interpretation due to many cells having less than five expected observations.

<sup>8</sup> A chi square test of differences between the propensity of each group to offer a supporting argument failed to find any statistically significant differences.

<sup>9</sup> One possible explanation for Auditors-General being less likely to provide supporting arguments is that their motivation for responding is to demonstrate their expertise without having a special interest in the outcome.

<sup>10</sup> The results of a Kruskal-Wallis test confirm the statistical significance of this difference (sig. 0.001). However, this result should be viewed with caution due to the small sample size.

<sup>11</sup> A Kruskal-Wallis test confirmed that there were statistically significant differences between the number of issues addressed by the groups for each of the different types of issues. Again, the extremely small sample size must be regarded with caution.